

1991



Department of the Treasury  
Internal Revenue Service

# Instructions for Form 1120-PC

## U.S. Property and Casualty Insurance Company Income Tax Return

(Section references are to the Internal Revenue Code unless otherwise noted.)

### Paperwork Reduction Act Notice

We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

<b>Recordkeeping</b> . . . . .	106 hr., 25 min.
<b>Learning about the law or the form</b> . . . . .	.33 hr., 47 min.
<b>Preparing the form</b> . . . . .	.55 hr., 37 min.
<b>Copying, assembling, and sending the form to the IRS</b> . . . . .	5 hr., 22 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form more simple, we would be happy to hear from you. You can write to both the **Internal Revenue Service**, Washington, DC 20224, Attention: IRS Reports Clearance Officer, T:FP; and the **Office of Management and Budget**, Paperwork Reduction Project (1545-1027), Washington, DC 20503. **DO NOT** send the tax form to either of these offices. Instead, see the instructions below for information on **Where To File** below.

### Important Change

#### Enhanced Oil Recovery Credit.—

Corporations may take a credit on **Form 8830**, Enhanced Oil Recovery Credit, for 15% of qualified enhanced oil recovery costs paid or incurred in tax years beginning after 1990. These costs generally include amounts paid or incurred in connection with a qualified enhanced oil recovery project for:

- Certain tangible personal property for which the corporation can claim a deduction for depreciation or amortization,
- Intangible drilling costs eligible for the election under section 263(c) or required to be capitalized under Section 291(b)(1), and
- Qualified tertiary injectant expenses for which a deduction is allowed under section 193.

If a corporation takes this credit, limitations apply to amounts otherwise deductible (or required to be capitalized and recovered through depreciation, depletion, or

amortization), that were used in figuring the credit.

For more information, see section 43 and Form 8830.

## General Instructions

### Purpose of Form

**Form 1120-PC**, U.S. Property and Casualty Insurance Company Income Tax Return, is used to report income, gains, losses, deductions, credits, and to figure the income tax liability of insurance companies other than life insurance companies.

### Filing Requirements

#### Who Must File

Every domestic nonlife insurance company and every foreign corporation carrying on an insurance business within the U.S. that would qualify as a nonlife insurance company subject to taxation under section 831, if it were a U.S. corporation, must file Form 1120-PC. This includes organizations described in section 501(m)(1) that provide commercial-type insurance and organizations described in section 833.

**Exceptions.**—A nonlife insurance company that is:

- Exempt under section 501(c)(15) should file **Form 990**, Return of Organization Exempt from Income Tax.
- Subject to taxation under section 831, and disposes of its insurance business and reserves, or otherwise ceases to be taxed under section 831, but continues its corporate existence while winding up and liquidating its affairs, should file **Form 1120**, U.S. Corporation Income Tax Return.

**Life insurance companies.**—Life insurance companies should file **Form 1120L**, U.S. Life Insurance Company Income Tax Return.

#### When To File

In general, a corporation must file its income tax return by the 15th day of the 3rd month after its tax year ends. A new corporation filing a short period return must generally file by the 15th day of the 3rd month after the short period ends. A corporation that has dissolved must generally file by the 15th day of the 3rd month after the date it dissolved. A foreign corporation that does not maintain an office or place of business in the U.S. has until the 15th day of the 6th month after the end of its tax year to file.

**Extension.**—File **Form 7004**, Application for Automatic Extension of Time To File Corporation Income Tax Return, to request a 6-month extension of time to file.

### Where To File

If the corporation's principal business, office, or agency is located in	Use the following Internal Revenue Service Center address
New Jersey, New York (New York City and counties of Nassau, Rockland, Suffolk, and Westchester)	Holtsville, NY 00501
New York (all other counties), Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont	Andover, MA 05501
Florida, Georgia, South Carolina	Atlanta, GA 39901
Kansas, New Mexico, Oklahoma, Texas	Austin, TX 73301
Indiana, Kentucky, Michigan, Ohio, West Virginia	Cincinnati, OH 45999
Illinois, Iowa, Minnesota, Missouri, Wisconsin	Kansas City, MO 64999
Alabama, Arkansas, Louisiana, Mississippi, North Carolina, Tennessee	Memphis, TN 37501
Alaska, Arizona, California (counties of Alpine, Amador, Butte, Calaveras, Colusa, Contra Costa, Del Norte, El Dorado, Glenn, Humboldt, Lake, Lassen, Marin, Mendocino, Modoc, Napa, Nevada, Placer, Plumas, Sacramento, San Joaquin, Shasta, Sierra, Siskiyou, Solano, Sonoma, Sutter, Tehama, Trinity, Yolo, and Yuba), Colorado, Idaho, Montana, Nebraska, Nevada, North Dakota, Oregon, South Dakota, Utah, Washington, Wyoming	Ogden, UT 84201
California (all other counties), Hawaii	Fresno, CA 93888
Delaware, District of Columbia, Maryland, Pennsylvania, Virginia	Philadelphia, PA 19255

Corporations having their principal place of business outside the U.S. or claiming a possessions tax credit (section 936) must file with the Internal Revenue Service Center, Philadelphia, PA 19255.

If the principal office of the managing corporation of a group of corporations located in several Service Center regions keeps all the books and records, the income tax returns of the corporations may be filed with the Service Center for the region in which this principal office is located.

#### Who Must Sign

The return must be signed and dated by the president, vice-president, treasurer, assistant treasurer, chief accounting officer, or any other corporate officer (such as tax officer) authorized to sign. A receiver, trustee, or assignee must sign and date any return required to be filed on behalf of a corporation.

If a corporate officer filled in Form 1120-PC, the Paid Preparer's space under "Signature of officer" should remain blank. If someone prepares Form 1120-PC and does not charge the corporation, that person

should not sign the return. Certain others who prepare Form 1120-PC should not sign. For example, a regular, full-time employee of the corporation, such as a clerk, secretary, etc., should not sign.

Generally, anyone who is paid to prepare Form 1120-PC must sign the return and fill in the other blanks in the Paid Preparer's Use Only area of the return.

The preparer required to sign the return MUST complete the required preparer information and:

- Sign it, by hand, in the space provided for the preparer's signature. (Signature stamps or labels are not acceptable.)
- Give a copy of Form 1120-PC to the taxpayer in addition to the copy filed with IRS.

## Figuring and Paying the Tax

### Accounting Information

**Accounting Methods.**—Taxable income must be computed using the method of accounting regularly used in keeping the corporation's books and records. In all cases, the method adopted must clearly reflect taxable income. See section 446.

Unless the law specifically permits otherwise, the corporation may not change the method of accounting used to report taxable income in earlier years (for income as a whole or for any material item) unless it first secures IRS consent on **Form 3115**, Application for Change in Accounting Method. Also see **Pub. 538**, Accounting Periods and Methods.

Generally, corporations (other than qualified personal service corporations) are required to use the accrual method of accounting if their average annual gross receipts are more than \$5 million. See section 448(c). A corporation changing to the accrual method because of this provision must complete **Form 3115**, Application for Change in Accounting Method, and attach it to Form 1120-PC for the year of change. The corporation must also show on a statement accompanying Form 3115 the period over which the section 481(a) adjustment will be taken into account and the basis for that conclusion. See section 448 and Temporary Regulations sections 1.448-1T(g) and 1.448-1T(h) for more information. Include the amount reportable as income in 1991 under section 481(a) on line 13, Schedule A.

### Timing Change in Deducting Accrued Expenses

Generally, an accrual basis taxpayer can deduct accrued expenses in the tax year that (1) all events have occurred that determine the liability, and (2) the amount of the liability can be determined with reasonable accuracy. However, all the events that establish liability for the amount are generally treated as occurring only when economic performance takes place. There are exceptions. See section 461(h).

### Rounding Off to Whole-Dollars

Money items may be shown on the return and accompanying schedules as whole-dollar amounts. To do so, drop any amount less than 50 cents and increase any amount from 50 cents through 99 cents to the next higher dollar.

## Depository Method of Tax Payment

The corporation must pay the tax due in full when the return is filed but no later than the 15th day of the 3rd month after the end of the tax year.

Deposit corporation income tax payments (and estimated tax payments) with a Federal Tax Deposit Coupon (**Form 8109**). Do not submit deposits directly to an IRS office. Mail or deliver the completed Federal Tax Deposit Coupon (Form 8109) and the payment to a qualified depository for Federal taxes or to the Federal Reserve Bank (FRB) servicing your geographic area. Make checks or money orders payable to that depository or FRB. To help ensure proper crediting to your account, write your employer identification number, "Form 1120-PC," and the tax period to which the deposit applies on your check or money order. Be sure to darken the "1120" box on the coupon. Records of deposits will be sent to the IRS for crediting to the corporation's account.

A penalty may be imposed for failure to deposit the required amount of tax. See section 6656. This penalty may also apply if you mail or deliver deposits to IRS offices rather than to authorized depositories or FRBs.

For more information about deposits and penalties, see the instructions in the coupon book (Form 8109) and **Pub. 583**, Taxpayers Starting a Business.

### Estimated Tax Payments

Generally, a corporation must make installment payments of estimated tax if it can expect its estimated tax (income tax minus credits) to be \$500 or more. For a calendar or fiscal year corporation, the installments are due by the 15th day of the 4th, 6th, 9th, and 12th months of the tax year. If any date falls on a Saturday, Sunday, or legal holiday, substitute the next regular workday. Use **Form 1120-W**, Corporation Estimated Tax, as a worksheet to compute estimated tax. Use the deposit coupons (Form 8109) to make deposits of estimated tax.

If the corporation overpaid estimated tax, it may be able to get a "quick refund" by filing **Form 4466**, Corporation Application for Quick Refund of Overpayment of Estimated Tax. The overpayment must be at least 10% of expected income tax liability, and at least \$500. To apply for a quick refund, file Form 4466 before the 16th day of the 3rd month after the end of the tax year, but before the corporation files its income tax return. Do not file Form 4466 before the end of the corporation's tax year.

**Caution:** *Foreign insurance companies see Notice 90-13, 1990-1 C.B. 321 before computing estimated tax.*

## Interest and Penalties

**Interest.**—Interest is charged on taxes not paid by the due date, even if an extension of the time to file is granted. Interest is also charged on penalties imposed for failure to file, negligence, fraud, gross valuation overstatements, and substantial understatements of tax from the due date (including extensions) to the date of payment. The interest charge is figured at a rate determined under section 6621.

**Late filing of return.**—A corporation that fails to file its return when due (including extensions of time for filing) may be subject to a penalty of 5% of the unpaid tax for each month or part of a month the return is late, up to a maximum of 25% of the unpaid tax. The minimum penalty for a tax return that is more than 60 days late is the smaller of the tax due or \$100. The penalty will not be imposed if the taxpayer can show that failure to file a timely return is due to reasonable cause. Those filing late (after the due date, including extensions), must attach a statement to the return explaining the reasonable cause.

**Late payment of tax.**—The penalty for late payment of taxes is usually  $\frac{1}{2}$  of 1% of the unpaid tax for each month or part of a month the tax is unpaid. The penalty cannot exceed 25% of the amount due. This penalty may also apply to any additional tax not paid within 10 days of the date of the notice and demand for payment.

**Estimated tax penalty.**—A corporation that fails to make estimated tax payments when due may be subject to an underpayment penalty for the period of underpayment. In general, to avoid the estimated tax penalty, the corporation must make estimated tax payments of at least the smaller of 90% of the tax shown on the return, or 100% of its prior year's tax. See section 6655 for details and exceptions. **Form 2220**, Underpayment of Estimated Tax by Corporations, is used to see if the corporation owes a penalty and to figure the amount of the penalty. Generally, the corporation does not have to file this form because IRS can figure the amount of any penalty and bill the corporation for it. However, you must complete and attach Form 2220 even if the corporation does not owe the penalty if: (a) the annualized income or adjusted seasonal installment method is used, or (b) the corporation is a "large corporation" computing its first required installment based on the prior year's tax. (See the instructions for Form 2220 for the definition of a "large corporation.") If you attach Form 2220, be sure to check the box on line 15, and enter the amount of any penalty on that line.

**Other penalties.**—Other penalties can be imposed for negligence, substantial understatement of tax, and fraud. See sections 6662 and 6663.

## Other Forms, Returns, and Statements That May Be Required

### Forms

The corporation may have to file the following:

**Forms W-2 and W-3.** Wage and Tax Statement; and Transmittal of Income and Tax Statements.

**Forms 1042 and 1042S.** Annual Withholding Tax Return for U.S. Source Income of Foreign Persons; and Foreign Person's U.S. Source Income Subject to Withholding. Use these forms to report and transmit withheld tax on payments or distributions made to nonresident alien individuals, foreign partnerships, or foreign corporations to the extent such payments or distributions constitute gross income from sources within the U.S. (see sections 861 through 865). For

more information, see sections 1441 and 1442, and **Pub. 515**, Withholding of Tax on Nonresident Aliens and Foreign Corporations.

**Form 1096.** Annual Summary and Transmittal of U.S. Information Returns.

**Form 1098.** Mortgage Interest Statement. This form is used to report the receipt from any individual of \$600 or more of mortgage interest and points in the course of the corporation's trade or business for any calendar year.

**Forms 1099-A, B, DIV, INT, MISC, OID, PATR, R, and S.** Information returns for reporting abandonments, acquisitions through foreclosure, proceeds from brokers and barter exchange transactions, certain dividends and distributions, interest payments, payments for certain fishing boat crew members, medical and dental health care payments, direct sales of consumer goods for resale, miscellaneous income payments, nonemployee compensation, original issue discount, patronage dividends, and distributions from profit-sharing plans, retirement plans, individual retirement arrangements, insurance contracts, etc., and proceeds from real estate transactions. Also use these returns to report amounts that were received as a nominee on behalf of another person. For more information, see the instructions for Form 1099 and **Pub. 937**, Business Reporting.

**Note:** Every corporation must file Form 1099-MISC if, in the course of its trade or business, it makes payments of rents, commissions, or other fixed or determinable income (see section 6041) totaling \$600 or more to any one person during the calendar year.

**Form 5452.** Corporate Report of Nondividend Distributions.

**Form 5498.** Individual Retirement Arrangement Information. Use this form to report contributions (including rollover contributions) to an individual retirement arrangement (IRA) and the value of an IRA or simplified employee pension account.

**Form 5713.** International Boycott Report, for persons having operations in or related to "boycotting" countries. In addition, persons who participate in or cooperate with an international boycott may have to complete Schedule A or Schedule B and Schedule C of Form 5713 to compute their loss of the following items: the foreign tax credit, the deferral of earnings of a controlled foreign corporation, IC-DISC benefits, and FSC benefits.

**Form 8264.** Application for Registration of a Tax Shelter. This form is used by tax shelter organizers to register tax shelters with the IRS for the purpose of receiving a tax shelter registration number.

**Form 8271.** Investor Reporting of Tax Shelter Registration Number. Taxpayers who have acquired an interest in a tax shelter, which is required to be registered, use this form to report the tax shelter's registration number. Form 8271 must be attached to any tax return (including an application for tentative refund (**Form 1139**, Corporation Application for Tentative Refund) or an amended return) on which a deduction, credit, loss, or other tax benefit attributable to a tax shelter is taken or any income attributable to a tax shelter is reported.

**Form 8281.** Information Return for Publicly Offered Original Issue Discount Instruments. This form is generally required to be filed by issuers of public offerings of debt instruments within 30 days of the issuance of the debt instrument.

**Form 8300.** Report of Cash Payments Over \$10,000 Received in a Trade or Business. Generally, this form is used to report the receipt of more than \$10,000 in cash or foreign currency in one transaction (or a series of related transactions).

**Form 8594.** Asset Acquisition Statement, is to be filed by both the purchaser and seller of a group of assets constituting a trade or business if goodwill or a going concern value attaches, or could attach, to such assets and if the purchaser's basis in the assets is determined only by the amount paid for the assets.

**Form 8816.** Special Loss Account and Special Estimated Tax Payments for Insurance Companies. This form must be filed by any insurance company that elects to take an additional deduction under section 847.

### Consolidated Return

If an affiliated group of corporations includes one or more domestic life insurance companies taxed under section 801, the common parent may elect to treat those life insurance companies as includible corporations. The life insurance companies must have been members of the group for the 5 tax years immediately preceding the tax year for which the election is made. See section 1504(c)(2) and Regulations section 1.1502-47(d)(12).

The parent corporation of an affiliated group of corporations must attach **Form 851**, Affiliations Schedule, to the consolidated return. For the first year a consolidated return is filed, each subsidiary must attach **Form 1122**, Authorization and Consent of Subsidiary Corporation To Be Included in a Consolidated Income Tax Return.

File supporting statements for each corporation included in the consolidated return. Use columns to show the following, both before and after adjustments:

- Items of gross income and deductions.
- A computation of taxable income.
- Balance sheets as of the beginning and end of the tax year.
- A reconciliation of income per books with income per return.
- A reconciliation of retained earnings.

**Note:** If a nonlife insurance company is a member of an affiliated group, file Form 1120-PC as an attachment to the consolidated return in lieu of filing supporting statements. Write across the top of page 1 of Form 1120-PC, "Supporting Statement to Consolidated Return."

Attach consolidated balance sheets and a reconciliation of consolidated retained earnings.

### Statements

**NAIC annual statement.**—Regulations section 1.6012-2(c) requires that the NAIC annual statement be filed with Form 1120-PC. A penalty for the late filing of a return may be imposed for not including the annual statement when the return is filed.

**Stock ownership in foreign corporations.**— Attach the required statement to Form 1120-PC if the corporation owned 5% or more in value of the outstanding stock of a foreign personal holding company and the corporation was required to include in its gross income any undistributed foreign personal holding company income from a foreign personal holding company. See section 551(c).

A corporation that controls a foreign corporation, or that is a 10%-or-more shareholder of a controlled foreign corporation, or acquires, disposes of, or owns 5% or more ownership in the outstanding stock of a foreign corporation may have to file **Form 5471**, Information Return of U.S. Persons With Respect to Certain Foreign Corporations.

A domestic corporation or a foreign corporation that is engaged in a trade or business in the U.S. and is controlled by a foreign person may have to file **Form 5472**, Information Return of a Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business.

**Transfers to a corporation controlled by the transferor.**— If a person receives stock of a controlled corporation in exchange for property, and no gain or (loss) is recognized under section 351, the person (transferor) and the transferee must attach to their respective income tax returns the information required by Regulations section 1.351-3.

### Attachments

Please complete every applicable entry space on Form 1120-PC. Do not attach statements and write "See attached" instead of completing the entry spaces on Form 1120-PC.

If more space is needed on the forms or schedules, attach separate sheets showing at the top of each attachment the form number or schedule letter of the form or schedule being continued. Also, show the information called for on the form in the same order as on the printed forms. **Be sure to show totals on the printed forms.** Please use sheets that are the same size as the forms and schedules. Attach these separate sheets after all the schedules and forms. Also, put the corporation's name and EIN on each sheet.

## Specific Instructions

**Period Covered.**—File the 1991 return for calendar year 1991.

**Address.**—Include the suite, room, or other unit number after the street address. If the Post Office does not deliver mail to the street address and the corporation has a P.O. box, show the P.O. box number instead of the street address.

**Item A. Employer identification number.**— Enter the corporation's EIN. A corporation that does not have an EIN should apply for one on Form **SS-4**, Application for Employer Identification Number. This form may be obtained from most IRS and Social Security Administration offices. Send Form SS-4 to the same Internal Revenue Service Center to which Form 1120-PC is mailed. If the EIN has not been received by the filing time for the corporation, write "Applied for" in the space provided for the EIN. For more information concerning an EIN, see Pub. 583.

**Item D.**—Indicate a final return, change of address, or amended return by checking the appropriate box. If a change in address occurs after the return is filed, the corporation should use **Form 8822**, Change of Address, to notify the IRS.

**Item E.**—Check the applicable box if the corporation is a foreign corporation and elects under: (1) section 953(c)(3)(C) to treat its related person insurance income as effectively connected with the conduct of a trade or business in the U.S., or (2) section 953(d) to be treated as a domestic corporation. A foreign corporation making either election should file its return with the Internal Revenue Service Center, Philadelphia, PA 19255. See Notice 89-79, 1989-2, C.B. 392, for the procedural rules to make the section 953(d) election.

**Note:** Once either election is made, it will apply to the tax year for which it is made and all subsequent tax years unless revoked with the consent of the Secretary. Also, any loss of a foreign corporation electing to be treated as a domestic insurance company under section 953(d), will be treated as a dual consolidated loss and will not be allowed to reduce the taxable income of any other member of the affiliated group for this tax year or any other tax year.

## Taxable Income

**Line 1, Taxable income, and line 2, Taxable investment income.**—If the corporation is a small company as defined in section 831(b)(2) and elects under section 831(b)(2)(A)(ii) to be taxed on taxable investment income, complete Schedule B (ignore Schedule A) and enter the amount from Schedule B, line 21,

on line 2, page 1. All other corporations should complete Schedule A (ignore Schedule B) and enter on line 1, page 1, the amount from Schedule A, line 37.

## Tax Computation and Payments

### Page 1, lines 3–18

**Members of a controlled group.**—A member of a controlled group, as defined in section 1563, must check the box on line 3 and complete lines 3a(i) and 3a(ii) on page 1.

Members of a controlled group are entitled to one \$50,000 amount and one \$25,000 amount (in that order) in each taxable income bracket on line 3a.

When a controlled group adopts or later amends an apportionment plan, each member must attach to its tax return a copy of its consent to this plan. The copy (or an attached statement) must show the part of the amount in each taxable income bracket apportioned to that member. There are other requirements as well. See Regulations section 1.1561-3(b) for the requirements and for the time and manner of making the consent.

**Equal apportionment plan.** If no apportionment plan is adopted, the members of the controlled group must divide the amount in each taxable income bracket equally among themselves. For example, controlled group AB consists of Corporation A and Corporation B. They do not elect an apportionment plan. Therefore, both Corporation A and Corporation B are entitled to \$25,000 (one-half of \$50,000) in the \$50,000 taxable income bracket on line 3a(i)

and to \$12,500 (one-half of \$25,000) in the \$25,000 taxable income bracket on line 3a(ii).

**Unequal apportionment plan.** Members of a controlled group may elect an unequal apportionment plan and divide the taxable income brackets as they wish. There is no need for consistency between taxable income brackets. Any member of the controlled group may be entitled to all, some, or none of the taxable income bracket. However, the total amount for all members of the controlled group cannot be more than the total amount in each taxable income bracket.

### Deferred tax amount under section 1291.

—If the corporation was a shareholder in a passive foreign investment company (PFIC) and the corporation received an excess distribution or disposed of its investment in the PFIC during the year, it must include the aggregate increases in taxes due under section 1291(c)(2) in the amount entered on line 4. On the dotted line to the left of line 4, write “Sec. 1291– \$(amount).” Do not include on line 4 any interest due under section 1291(c)(3). Instead, write the amount of interest owed in the bottom margin of page 1 and label it “Sec. 1291 interest.” See **Form 8621**, Return by a Shareholder of a Passive Foreign Investment Company or Qualified Electing Fund, for details.

**Line 5. Enter amount of tax that a reciprocal must include.**—Section 835 provides that a mutual insurance company that is an interinsurer or reciprocal underwriter may elect to limit the deduction for amounts paid or incurred to a qualifying attorney-in-fact to the amount of the deductions of the attorney-in-fact allocable to the income received by the attorney-in-fact from the reciprocal. If this election is made, any increase in the taxable income of a reciprocal that is a result of this limitation is taxed at the highest rate of tax specified in section 11(b).

If the mutual insurance company's taxable income before including the section 835(b) amount is \$100,000 or more, make no entry on line 5. Otherwise, this tax is 34% of the section 835(b) amount. If there is an entry on line 5, attach a statement showing how the tax was computed.

Reciprocal underwriters making the election under section 835(a) are allowed a credit on line 14h for the amount of tax paid by the attorney-in-fact that is attributable to the income received by the attorney-in-fact from the reciprocal in the tax year.

See section 835 and the related regulations for special rules and for information regarding the statements required to be attached to the return.

**Line 7a. Foreign tax credit.**—See **Form 1118**, Foreign Tax Credit—Corporations, for an explanation of when a corporation can take this credit for payment of income tax to a foreign country or U.S. possession.

**Line 7b. Other credits.**—**Possessions tax credit.**—See **Form 5712**, Election To be Treated as a Possessions Corporation Under Section 936, for rules on how to elect to claim the possessions corporation tax credit. Compute the credit on **Form 5735**, Possessions Corporation Tax Credit Allowed Under Section 936. Include the credit in the amount shown on line 7b. On the line to the left of the entry space, write the amount of

### Each member of a controlled group must compute the tax as follows:

1. Enter the taxable income (line 1 or 2, page 1) . . . . .
2. Enter line 1 above or your share of the \$50,000 taxable income bracket, whichever is less . . . . .
3. Subtract line 2 from line 1. . . . .
4. Enter line 3 or your share of the \$25,000 taxable income bracket, whichever is less. . . . .
5. Subtract line 4 from line 3. . . . .
6. Enter 15% of line 2 . . . . .
7. Enter 25% of line 4 . . . . .
8. Enter 34% of line 5 . . . . .
9. If the taxable income of the controlled group exceeds \$100,000, enter the portion of the smaller of 5% of the excess over \$100,000 or \$11,750 that this member must pay. (See instructions for additional 5% tax below.) . . . . .
10. Add lines 6 through 9. Enter here and on line 4, page 1 . . . . .

**Additional 5% tax.** Members of a controlled group are treated as one corporation for purposes of figuring the applicability of the additional 5% tax that must be paid by corporations with taxable income in excess of \$100,000. If the additional tax applies, each member of the controlled group will pay that tax based on the part of the amount that is used in each taxable income bracket to reduce that member's tax. See section 1561(a). Each member of the group must enter its share of the additional 5% tax on line 3b and attach to its tax return a schedule that shows the taxable income of the entire group as well as how its share of the additional tax was figured.

Members of a controlled group should use the Worksheet for Members of a Controlled Group above to figure their tax. All other corporations should figure the tax to enter on line 4 using the tax rate schedule below.

### Line 4. Income tax

If the amount on line 1 or 2, Form 1120-PC is:

Over—	But not over—	Tax is:	Of the amount over—
\$ 0	\$50,000	15%	\$ 0
50,000	75,000	\$ 7,500 + 25%	50,000
75,000	100,000	13,750 + 34%	75,000
100,000	335,000	22,250 + 39%	100,000
335,000	— — — —	34%	0

the credit and identify it as a section 936 credit.

**Credit for fuel produced from a nonconventional source.**—A credit is allowed for the sale of qualified fuels produced from a nonconventional source. Section 29 contains a definition of qualified fuels, provisions for figuring the credit, and other special rules. Attach a separate schedule to the return showing the computation of the credit. See Form 8827 if any of the 1990 credit was disallowed solely because of the tentative minimum tax limitation. Also see section 53(d).

**Orphan drug credit.**—See section 28 and Form 6765, Credit for Increasing Research Activities (or for claiming the orphan drug credit), for an explanation of when a corporation can take this credit as well as how it is figured.

**Line 7c. General business credit.**—Complete this line if the corporation can take any of the following credits. If the corporation has two or more of these credits, a credit carryforward or carryback (including an ESOP credit), or a passive activity credit, Form 3800 must also be completed. Enter the amount of the general business credit on line 7c, and check the box for Form 3800. If the corporation has only one credit, enter on line 7c the amount of the credit from the form. Also be sure to check the appropriate box for that form.

**Investment credit.** The investment credit was generally repealed for property placed in service after 1985. See Form 3468, Investment Credit, for exceptions.

**Jobs credit.** The corporation may qualify to take this credit if it hired members of special targeted groups during the tax year. See Form 5884, Jobs Credit, for more information.

**Note:** The corporation may not take an expense deduction for the part of the wages or salaries paid or incurred which is equal to the amount of the jobs credit (determined without regard to the limitation based on the tax (section 38(c))).

**Credit for Alcohol Used as Fuel.** A corporation may be able to take a credit for alcohol used as fuel. Use Form 6478, Credit for Alcohol Used as Fuel, to figure the credit.

**Credit for Increasing Research Activities.** See Form 6765, Credit for Increasing Research Activities, and section 41.

**Low-Income Housing Credit.** See Form 8586, Low-Income Housing Credit and section 42.

**Enhanced Oil Recovery Credit.** A corporation may claim a credit for 15% of its qualified enhanced oil recovery costs. Use Form 8830 to figure the credit.

**Disabled Access Credit.** A corporation may be able to take a credit for certain expenditures paid or incurred to assist individuals with disabilities. See Form 8826, Disabled Access Credit and Section 44.

**Line 7d. Credit for Prior Year Minimum Tax.** Use Form 8827, Credit for Prior Year Minimum Tax—Corporations, to figure the minimum tax credit and any carryforward of that credit.

**Line 9. Foreign corporations.**—A foreign corporation carrying on an insurance business within the U.S. is taxed in the same manner

as a domestic insurance company on its income effectively connected with the conduct of a trade or business within the United States. See sections 842 and 897, and Notice 89-96, 1989-2, C.B. 417 for more information. Also see Notice 90-13 for the domestic asset/liability percentages and domestic investment yields needed by foreign insurance companies to compute their minimum effectively connected net investment income under section 842(b). Income from sources outside the U.S. from U.S. business is treated as effectively connected with the conduct of a trade or business within the United States. For a definition of effectively connected income, see sections 864(c) and 897.

Generally, any other U.S. source income received by a foreign corporation that is not effectively connected with the conduct of a trade or business within the U.S. is taxed at 30% (or at a lower treaty rate).

**Note:** Interest received from certain portfolio debt investments that were issued after July 18, 1984, is not subject to the tax.

See section 881. If you have this income, attach a schedule showing the kind and amount of income, the tax rate (30% or a lower treaty rate), and the amount of tax.

Additional taxes resulting from the net investment income adjustment may offset a corporation's 30% tax on U.S. source income. The tax reduction is determined by multiplying the 30% tax by the ratio of the amount of income adjustment to income subject to the 30% tax, computed without the exclusion for interest on state and local bonds or income exempted from taxation by treaty. See section 842(c)(2). Attach a statement showing how you figured the reduction of section 881 tax. Enter the net tax imposed by section 881 on line 9.

**Note:** Section 953(d) allows a foreign insurance company to elect to be taxed as a domestic corporation. If the corporation makes this election, include the additional tax required to be paid on line 13. Write on the dotted line to the left of line 13, "Sec. 953(d) tax—\$(amount)." Attach a schedule showing the computation. See Section 953(d) for more details.

#### Line 10. Recapture taxes

- Recapture of investment credit. The corporation may owe the tax computed on Form 4255, Recapture of Investment Credit, if it disposed of investment credit property or changed its use before the end of its useful life or recovery period. See Form 4255 for details.

- Recapture of low-income housing credit. The corporation may owe the tax computed on Form 8611, Recapture of Low-Income Housing Credit, if it disposed of property (or there was a reduction in the qualified basis of the property) on which it took the low-income housing credit. See Form 8611 and section 42(j) for details.

**Line 11a. Alternative minimum tax.**—Attach Form 4626, Alternative Minimum Tax—Corporations, if the taxable income or (loss) before the NOL deduction when combined with adjustment items and tax preference items (including the adjusted current earnings adjustment) is more than the smaller of: (a) \$40,000, or (b) the corporation's allowable exemption amount. See Form 4626 for

details. Reduce alternative minimum tax by any amount on Form 3800, Schedule A, line 34. Write on the dotted line to the left on line 11a, "Sec. 38(c)(2)—\$(amount)."

**Line 11b. Environmental tax.**—The corporation may be liable for the environmental tax if the modified alternative minimum taxable income of the corporation exceeds \$2 million. See Form 4626 for details.

**Line 12. Personal holding company tax.**—A corporation is taxed as a personal holding company under section 542 if:

- At least 60% of its adjusted ordinary gross income, defined in section 543(b)(2), for the tax year is personal holding company income as defined in section 543(a), and
- At any time during the last half of the tax year more than 50% in value of its outstanding stock is owned, directly or indirectly, by not more than 5 individuals.

Use Schedule PH (Form 1120), U.S. Personal Holding Company Tax, to figure this tax.

#### Line 13. Total tax

- Interest on tax attributable to payments received on installment sales of certain timeshares and residential lots. If the corporation elected to pay interest on the amount of tax attributable to payments received on installment obligations arising from the disposition of certain timeshares and residential lots under section 453(l)(3), it must include the interest due in the amount to be entered on line 13. Write on the dotted line to the left of line 13, "Sec. 453(l)(3) interest—\$(amount)." Attach a schedule showing the computation.

- Interest on tax deferred under the installment method for certain nondealer installment obligations. If an obligation arising from the disposition of property to which section 453A applies is outstanding at the close of the year, the corporation must include the interest due under section 453A(c) in the amount to be entered on line 13. Write on the dotted line to the left of line 13, "Sec. 453A(c) interest—\$(amount)." Attach a schedule showing the computation.

- Deferred tax and interest on undistributed earnings of a qualified electing fund under section 1294. Complete Form 8621 to determine the corporation's share of tax attributable to the undistributed earnings of a qualified electing fund, or the deferred tax due, if any, as a result of the termination of a section 1294 election. Follow the instructions for Form 8621 to figure the amount of tax to include in or subtract from the total on line 13. Form 8621 also explains how to report any interest due under section 1294 on the deferred tax.

**Line 14b. Prior year's special estimated tax payments to be applied.**—Enter the portion of the special estimated tax payments made in earlier tax years being applied this year. The amount entered must agree with the amount(s) from line 10, Part II, Form 8816. See Form 8816 and section 847(2) for additional information.

**Line 14c. 1991 Estimated tax payments.**—Enter the corporation's estimated tax payments for 1991. Do not include any amount being applied on line 14d as a "Special estimated tax payment."

**Line 14d. 1991 Special estimated tax payments.**—If the deduction under section 847 is claimed on Schedule A, line 27, special estimated tax payments must be made in an amount equal to the tax benefit attributable to the deduction. See Form 8816 and section 847(2) for additional information.

**Line 14h. Credit by reciprocal for tax paid by attorney-in-fact under section 835(d).**—Enter the amount of tax paid by an attorney-in-fact that is a result of the income received by the attorney-in-fact from the reciprocal during the tax year. For more information, see section 835, the related regulations, and the instructions for line 5.

## Sales or Exchanges of Capital Assets

Report sales or exchanges of capital assets on Schedule D (Form 1120). The corporation must report every sale or exchange of a capital asset in detail, even if there is no gain or loss.

In general, corporate losses from sales or exchanges of capital assets are only allowed up to the gains from such sales or exchanges. However, for corporations taxable under section 831, this general rule does not apply to losses from capital assets sold or exchanged to get funds needed to meet abnormal insurance losses and to pay dividends and similar distributions to policyholders. The net capital loss for these corporations is the amount by which losses for the year from sales or exchanges of capital assets exceed the gains from these sales or exchanges plus the lesser of:

1. Taxable income (computed without regard to gains or losses from sales or exchanges of capital assets); or
2. Losses from the sale or exchange of capital assets sold or exchanged to obtain funds to meet abnormal insurance losses and to provide for the payment of dividends and similar distributions to policyholders.

Subject to the limitations in section 1212(a), a net capital loss can be carried back 3 years and forward 5 years as a short-term capital loss.

For more information on gains and losses from sales or exchanges of property, see the instructions for Schedule D (Form 1120) and **Pub. 544**, Sales and Other Dispositions of Assets.

## Schedule A—Taxable Income

**Gross income.**—The gross amounts of underwriting and investment income should be computed on the basis of the underwriting and investment exhibit of the NAIC annual statement.

**Note:** In computing the amounts entered on lines 2, 3, and 4, take all interest, dividends, or rents received during the year, add interest, dividends, or rents due and accrued at the end of the tax year, and deduct interest, dividends, or rents due and accrued at the end of the preceding tax year. For rules regarding the accrual of dividends, see Regulations section 1.301-1(b).

**Line 3a, column (a). Gross interest.**—Enter the gross amount of interest income, including all tax-exempt interest.

**Line 3b, column (a). Interest exempt under section 103.**—Section 103(a) excludes interest on state or local bonds from gross income. This exclusion does not apply to: (1) any private activity bond which is not a qualified bond within the meaning of section 141; (2) any arbitrage bond within the meaning of section 148; or (3) any bond that does not meet the requirements of section 149 (regarding the registration of tax-exempt bonds).

**Lines 3a and 3b, column (b). Amortization of premium.**—Enter on line 3a, column (b), the total amortization of bond premium, including amortization on tax-exempt bonds. Enter on line 3b, column (b), the amortization of bond premium on tax-exempt bonds only.

**Line 4. Rents.**—Enter gross rents, computed as indicated in the note above. Deduct rental expenses, such as repairs, interest, taxes, and depreciation on the proper lines in the deductions section (lines 15 through 31).

**Line 8. Certain mutual fire or flood insurance companies.**—Under section 832(b)(1)(D), a mutual fire or flood insurance company whose principal business is the issuance of policies:

1. for which the premium deposits are the same (regardless of the length of the term for which the policies are written), and
2. under which the unabsorbed portion of such premium deposits not required for losses, expenses, or establishment of reserves is returned or credited to the policyholder on cancellation or expiration of the policy, must include in income an amount equal to 2% of the premiums earned on insurance contracts during the tax year with respect to such policies returned or credited during the same tax year.

**Line 9. Income on account of the special income and deduction accounts.**—Section 832(e) requires corporations which write the kinds of insurance listed below to maintain the following special accounts. A corporation which writes: (1) mortgage guaranty insurance, must maintain a mortgage guaranty account; (2) lease guaranty insurance, must maintain a lease guaranty account; and (3) insurance on obligations the interest on which is excludible from gross income under section 103, must maintain an account with respect to insurance on state and local obligations.

Amounts that are required to be subtracted from these accounts under sections 832(e)(5) and 832(e)(6) must be reported as income on line 9 of Schedule A. See section 832(e) for more information.

**Line 11. Mutual interinsurers or reciprocal underwriters—decrease in subscriber accounts.**—Enter the decrease for the tax year in savings credited to subscriber accounts of a mutual insurance company that is an interinsurer or reciprocal underwriter. See the instructions for line 30, Schedule A, for a definition of savings credited to subscriber accounts.

**Line 12. Income from a special loss discount account.**—Enter the total from line 7, Part I, Form 8816. See section 847(5) and the instructions for Form 8816 for more information.

**Line 13. Other income.**—Enter any other taxable income not reported on lines 1 through 12, and explain its nature on an

attached schedule. If “other income” consists of only one item, describe it in parentheses on line 13.

## Deductions

**Line 16a. Salaries and wages.**—Enter salaries and wages paid or accrued during the tax year. Do not include salaries and wages deducted elsewhere on the corporation’s return, such as elective contributions to a Section 401(k) cash or deferred arrangement or amounts contributed under a salary reduction SEP agreement.

**Caution:** If the corporation provided taxable fringe benefits to its employees, such as the personal use of an auto, do not deduct as wages the amount allocated for depreciation and other expenses that the corporation claimed elsewhere on its return.

**Line 16b. Less jobs credit.**—Enter the amount of the jobs credit from Form 5884.

**Line 18. Rents.**—Enter rent paid or accrued for business property in which the corporation has no equity.

If the corporation rented or leased a vehicle, enter the total annual rent or lease expense paid or incurred during the year. Also complete Part V of **Form 4562**, Depreciation and Amortization. If the corporation leased a vehicle for a term of 30 days or more, the deduction for the vehicle lease expense may have to be reduced by an amount called the inclusion amount. You may have an inclusion amount if:

And the vehicle’s fair market value on the first day of the lease exceeded:

The lease term began:	
After 12/31/90	\$13,400
After 12/31/86 but before 1/1/91	\$12,800
After 4/2/85 but before 1/1/87	\$28,000
After 6/18/84 but before 4/3/85	\$40,500

See **Pub. 917**, Business Use of a Car, for instructions on how to figure the inclusion amount.

**Line 19. Taxes.**—Enter taxes paid or accrued during the tax year. Do not include the following taxes: 1. Federal income taxes (except the environmental tax under section 59A); 2. Foreign or U.S. possession income taxes if a credit is claimed; 3. Taxes not imposed on the corporation; or 4. Taxes, including state or local sales taxes, that are paid or incurred in connection with an acquisition or disposition of property. (These taxes must be treated as a part of the cost of the acquired property or, in the case of a disposition, as a reduction in the amount realized on the disposition.)

See section 164(d) for the apportionment of taxes on real estate between a seller and a purchaser.

If the corporation is liable for the environmental tax under section 59A, see Form 4626 for computation of the environmental tax deduction.

**Line 20a. Interest.**—Enter all interest paid or accrued during the tax year.

Generally, the interest and carrying charges on saddles must be capitalized. See section 263(g).

Interest paid or incurred that is allocable to certain property produced by a corporation for its own use or for sale must be capitalized. In addition, a corporation must



capitalize any interest on debt that it incurred or continued in connection with an asset used to produce the above property. See section 263A for definitions and for more information.

See section 163(e)(5) which provides special rules for the disqualified portion of original issue discount on a high yield discount obligation.

Certain interest paid or accrued by the corporation (directly or indirectly) to a related person may be limited if no tax is imposed on such interest. See section 163(j) for more detailed information.

See section 7872 for special rules regarding the deductibility of forgone interest on certain below-market rate loans.

**Line 20b. Less tax-exempt interest exp.—**Enter interest paid or accrued during the tax year on indebtedness incurred or continued to purchase or carry obligations if the interest is wholly exempt from income tax. For exceptions, see section 265(b).

**Line 21. Contributions.—**Enter contributions or gifts actually paid within the tax year to or for the use of charitable and governmental organizations described in section 170(c), and for any unused contributions carried over from prior years.

The total amount claimed may not be more than 10% of taxable income (line 37, Schedule A) computed without regard to: (1) any deduction for charitable contributions; (2) the deduction for dividends received; (3) the deduction allowed under section 249; (4) any net operating loss (NOL) carryback to the tax year under section 172; and (5) any capital loss carryback to the tax year under section 1212(a)(1).

Charitable contributions over the 10% limitation may not be deducted for the tax year but may be carried over to the next 5 tax years.

Taxable income is modified to determine the amount of an NOL used in an intervening year (i.e., a year to which an NOL is carried but not fully absorbed). For this purpose, taxable income is computed by determining the NOL deduction for the year without regard to the NOL for the loss year or any later year. See section 172(b)(2). To the extent charitable contributions are used to reduce taxable income for this purpose and increase an NOL carryover, a contributions carryover is not allowed. See section 170(d)(2)(B).

Corporations on the accrual basis may elect to deduct contributions paid by the 15th day of the 3rd month after the end of the tax year if the contributions are authorized by the board of directors during the tax year. Attach to the return a declaration, signed by an officer, stating that the resolution authorizing the contributions was adopted by the board of directors during the tax year. Also attach a copy of the resolution.

If a contribution is in property other than money for which the total claimed deduction of all such property exceeds \$500, corporations (except closely held and personal service corporations) must attach a schedule describing the kind of property contributed and the method used to determine its fair market value.

Closely-held and personal service corporations generally must complete **Form**

**8283, Noncash Charitable Contributions**, and attach it to their returns. All other corporations generally must complete and attach Form 8283 to their returns for contributions of property other than money, if the total claimed deduction for all property contributed was more than \$5,000. Also, a corporation must keep records, as required by the regulations for section 170, for all of its charitable contributions.

If the corporation made a qualified conservation contribution under section 170(h), also include the fair market value of the underlying property before and after the donation, the type of legal interest contributed, and describe the conservation purpose furthered by the donation.

If a contribution carryover is included, show the amount and how it was determined.

**Special rule for contributions of certain property.—**For a charitable contribution of property, the contribution must be reduced by the sum of: (1) The ordinary income or short-term capital gain that would have resulted if the property had been sold at its fair market value, and (2) For certain contributions, all of the long-term capital gain that would have resulted if the property had been sold at its fair market value.

The reduction for long-term capital gain applies to: (1) Contributions of tangible personal property for use by an exempt organization for a purpose or function unrelated to the basis for its exemption; and (2) Contributions of any property (except stock for which market quotations are readily available—see section 170(e)(5)) to or for the use of certain private foundations. (See section 170(e) and Regulations section 1.170A-4.)

For special rules for contributions of inventory and other property to certain organizations, see section 170(e)(3) and Regulations section 1.170A-4A.

**Charitable contributions of scientific property used for research.—**A corporation (other than a personal holding company or a personal service organization) can receive a larger deduction for contributing scientific property used for research to an institution of higher education. For further information, see section 170(e).

**Line 22. Depreciation.—**Besides depreciation, include on line 22 the part of the cost (up to \$10,000) that the corporation elected to expense for certain tangible property placed in service during tax year 1991 or carried over from 1990. See the instructions for Form 4562.

**Line 23. Depletion.—**See sections 613 and 613A for percentage depletion rates applicable to natural deposits. Also, see section 291 for the limitation on the depletion deduction for iron ore and coal (including lignite).

Foreign intangible drilling costs and mining and development costs paid or incurred must either be added to the corporation's basis for cost depletion purposes or be deducted ratably over a 10-year period. See sections 263(i), 616, and 617 for more information.

Attach **Form T (Timber)**, Forest Industries Schedules, if a deduction for depletion of timber is taken.

**Line 24. Pension, profit-sharing, etc., plans.—**Enter the deduction for contributions

to pension, profit-sharing, or other funded deferred compensation plans. Employers who maintain such a plan generally are required to file one of the forms listed below, even if the plan is not a "qualified" plan under the Internal Revenue Code. The filing requirement applies even if no deduction is claimed for the current tax year. There are penalties for failure to file these forms on time and for overstating the pension plan deduction. See sections 6652(e) and 6662(f).

**Form 5500.—**Complete this form for each plan with 100 or more participants.

**Form 5500-C/R.—**Complete this form for each plan with fewer than 100 participants.

**Form 5500EZ.—**Complete this form for a one-participant plan.

**Line 25. Employee benefit programs.—**Enter the amount of contributions to employee benefit programs (for example, insurance, health and welfare programs) that are not an incidental part of a pension, profit-sharing, etc., plan included on line 24.

**Line 27. Additional deduction.—**Any insurance company required to discount unpaid losses under section 846 is allowed an additional deduction not to exceed the excess of (1) the amount of certain undiscounted unpaid losses over (2) the amount of the related discounted unpaid losses, to the extent the amount was not deducted in a preceding tax year. Enter the amount of the additional deduction on this line and attach Form 8816.

Any insurance company taking the additional deduction is required to: (1) make special estimated tax payments equal to the tax benefit attributable to the deduction, and (2) establish and maintain a Special Loss Discount Account. See section 847 and Form 8816 for details.

**Line 29. Dividends to policyholders.—**Enter the total dividends and similar distributions paid or declared to policyholders in their capacity as such, except in the case of a mutual fire insurance company exclusively issuing perpetual policies. Whether dividends have been paid or declared should be determined according to the method of accounting regularly employed in keeping the books of the insurance company.

"Dividends and similar distributions" includes amounts returned or credited to policyholders on cancellation or expiration of policies issued by a mutual fire or flood insurance company (1) where the premium deposits for the policy are the same (regardless of the length of the term for which the policies are written), and (2) under which the unabsorbed portion of such premium deposits not required for losses, expenses, or establishment of reserves is returned or credited to the policyholder on cancellation or expiration of the policy.

In the case of a qualified group self-insurers fund, the fund's deduction for policyholder dividends is allowed no earlier than the date the state regulatory authority determines the amount of the policyholder dividend that may be paid. See section 6076 of the Technical and Miscellaneous Revenue Act of 1988 ("Act of 1988").

**Line 30. Mutual interinsurers or reciprocal underwriters—**increase in subscriber accounts.—A mutual insurance company that is an interinsurer or reciprocal underwriter

may deduct the increase in savings credited to subscriber accounts for the tax year.

"Savings credited to subscriber accounts" means the surplus credited to the individual accounts of subscribers before the 16th day of the 3rd month following the close of the tax year. This is true only if the corporation would be required to pay this amount promptly to a subscriber if the subscriber ended the contract when the corporation's tax year ends. The corporation must notify the subscriber as required by Regulations section 1.823-6(c)(2)(v). The subscriber must treat any savings credited to the subscriber's account as a dividend paid or declared.

**Line 31. Other deductions.**—Enter the total deductions allowable under sections 832(c)(1) and (10) (net of the annual statement change in undiscounted unpaid loss adjustment expenses) to the extent they are not reported on lines 15 through 30.

A corporation may deduct dividends it pays in cash on stock held by an employee stock ownership plan. However, a deduction may only be taken if, according to the plan, the dividends are: (1) Paid in cash directly to the plan participants or beneficiaries; (2) Paid to the plan which distributes them in cash to the plan participants or their beneficiaries no later than 90 days after the end of the plan year in which the dividends are paid; or (3) Used to make payments on a loan described in section 404(a)(9). See section 404(k) for more information and the limitation on certain dividends.

Generally, the corporation can deduct only 80% of the amount otherwise allowable for meals and entertainment expenses paid or incurred in its trade or business. In addition, meals must not be lavish or extravagant; a bona fide business discussion must occur during, immediately before, or immediately after the meal; and an employee of the corporation must be present at the meal. See section 274(k)(2) for exceptions. If the corporation claims a deduction for unallowable meal expenses, it may have to pay a penalty. Additional limitations apply to deductions for gifts, skybox rentals, luxury water travel, convention expenses, and entertainment tickets. See section 274 and **Pub. 463**, Travel, Entertainment, and Gift Expenses, for details.

For tax years ending on or after September 30, 1990, insurance companies are generally required to amortize policy acquisition expenses on a straight-line basis over a period of 120 months beginning with the 1st month in the 2nd half of the tax year (section 848(a)). The amount to be amortized is so much of the taxpayer's "general deductions" that does not exceed the sum of the following percentages of net premiums: Annuities 1.75%, Group life 2.05%, Other life (including noncancelable or guaranteed renewable accident and health) 7.7%. "General deductions" means the deductions provided in part VI of subchapter B (sec. 161 and following, relating to itemized deductions) and in part I of subchapter D (sec. 401 and following, relating to pension, profit sharing, stock bonus plans, etc.). Section 848(b) provides for an amortization period of 60 months for the first \$5 million of amortizable policy acquisition expenses for any tax year. See section 848(b)(2) for phase-out rules. The 60 month amortization period does not apply to any policy acquisition expenses for any tax

year that are attributable to premiums or other consideration under any reinsurance contract (section 848(b)(4)). See section 848 for special rules, definitions, and exceptions.

For tax years including September 30, 1990, only a pro rata portion of amortizable expenses are required to be amortized, determined by dividing the days left in the tax year on or after September 30 by the total number of days in that tax year.

If a corporation takes a credit for enhanced oil recovery costs on Form 8830, limitations apply to amounts otherwise deductible (or required to be capitalized and recovered through depreciation, depletion, or amortization) that were used in figuring the credit. See section 43.

Attach a schedule itemizing the amounts included on line 31.

**Line 34a. Special deduction for section 833 organizations.**—The amount claimed cannot exceed taxable income for the tax year (determined without regard to this deduction).

**Line 34b. Deduction on account of the special income and deduction accounts.**—Enter the total of the amounts required to be added under sections 832(e)(4) and (6). However, no deduction is permitted unless the corporation purchases tax and loss bonds in an amount equal to the tax benefit attributable to the deduction. See section 832(e).

**Note:** *The deduction on account of the special income and deduction accounts is limited to taxable income for the tax year (computed without regard to this deduction or to any carryback of a net operating loss).*

**Line 36b. Net operating loss deduction.**—The "net operating loss deduction" is the amount of the NOL carryovers and carrybacks that can be deducted in the tax year. See section 172(a). If this deduction is taken, explain its computation on an attached schedule.

Generally, a corporation may carry a NOL back to each of the 3 years preceding the year of the loss and carry it over to each of the 15 years following the year of the loss. Personal service corporations are not permitted to carry back a NOL to or from any tax year to which a section 444 election applies.

A corporation may carry back 10 years the part of the NOL attributable to a product liability loss. See section 172(b)(1)(C). See Regulations section 1.172-13(c) for the required statement that must be attached to Form 1120-PC when claiming the 10-year carryback on product liability losses.

There is also an available election to carry a NOL over to just each of the 15 years following the year of the loss. The election may be made by attaching a statement to a tax return that is filed on time (including extensions). The election is irrevocable. Section 172(b)(1) describes types of losses for which the 15-year carryover period does not apply. Also see section 172(b)(1)(E) for special rules for a corporation with an excess interest loss if the corporation had an equity reduction interest loss for any loss limitation year ending after August 2, 1989.

After applying the NOL to the first tax year to which it may be carried, the portion of the loss the corporation may carry to each of the remaining tax years is the excess, if any, of

the loss over the sum of the modified taxable income for each of the prior tax years to which the corporation may carry the loss. See section 172(b).

If there is a carryback of a NOL, net capital loss, or an unused credit, file **Form 1139**, Corporation Application for Tentative Refund, within 12 months after the close of the tax year for a "quick refund" of taxes. See section 6411.

**Caution:** *Do not attach Form 1139 to the corporation's income tax return. Mail it in a separate envelope and file it with the same service center the corporation files its income tax return.*

A NOL cannot be carried to or from any tax year for which the insurance company is not subject to tax under section 831(a), or to any tax year if (between the tax year from which the loss is being carried and such tax year) there is an intervening tax year for which the insurance company was not subject to tax imposed by section 831(a).

See section 172 for special rules, limitations, and definitions pertaining to net operating loss carrybacks and carryovers. Also see **Pub. 536**, Net Operating Losses.

See section 382 for the limitation on the amount of taxable income of a loss corporation for any tax year ending after a post-1986 ownership change that may be offset by pre-change NOL carryovers. Also see Temporary Regulations section 1.382-27(a)(2)(ii), which requires that a loss corporation file an information statement with its income tax return for each tax year that it is a loss corporation.

See section 384 for the limitation on the use of preacquisition losses of one corporation to offset recognized built-in gains of another corporation.

See section 844 for special loss carryover rules for insurance companies.

## Schedule B, Part I—Taxable Investment Income of Electing Small Companies

**Note:** (1) *Once an election is made to be taxed only on investment income, it can only be revoked with the consent of the Secretary,* and (2) *a corporation making this election must include in gross investment income any amount subtracted from a protection against loss account.*

### Income

**Line 1a, column (a). Gross interest.**—Enter the gross amount of interest income including all tax-exempt interest income.

**Line 1b, column (a). Interest exempt under section 103.**—Enter the amount of interest on state and local bonds that is exempt from taxation under section 103. See the instructions for Schedule A, line 3b, column (a), for more information.

**Lines 1a and 1b, column (b). Amortization of premiums.**—Enter on line 1a, column (b), the total amortization of bond premiums, including amortization of premium on tax-exempt bonds. Enter on line 1b, column (b), the amortization of bond premium on tax-exempt bonds.

**Line 3. Gross rents.**—Enter the gross rents received or accrued during the tax year.



Deduct rental expenses such as repairs, interest, taxes and depreciation on the proper lines in the deductions section.

**Line 5. Gross income from a trade or business other than insurance and from Form 4797.**—Enter the gross income from a trade or business other than insurance carried on by the insurance company or by a partnership of which the insurance company is a partner. Include section 1245, section 1250 (as modified by section 291), and other gains from **Form 4797**, Sales of Business Property, on investment assets only.

**Line 6. Income from leases described in sections 834(b)(1)(B) and 834(b)(1)(C).**—Enter the gross income from entering into (or changing or ending) any lease, mortgage, or other instrument or agreement from which the company earns interest, dividends, rents, or royalties.

## Deductions

**Note:** Also see section 834(d)(1) regarding the limitation of expenses on real estate owned and occupied in part or in whole by a mutual insurance company.

**Line 9. Real estate taxes.**—Enter taxes paid or accrued on real estate owned by the corporation and deductible under section 164.

**Line 10. Other real estate expenses.**—Enter all ordinary and necessary real estate expenses, such as fire insurance, heat, light, and labor. Also enter the cost of incidental repairs such as labor and supplies, that do not add to the property's value nor appreciably prolong its life. Do not include any amount paid for new buildings or for permanent improvements or betterments made to increase the value of any property or any amount spent on foreclosed property before the property is held for rent.

**Line 11. Depreciation.**—Enter depreciation on assets only to the extent that the assets are used to produce the income specified in section 834(b) and reported on lines 1 through 7 of Schedule B. Besides depreciation, include the part of the cost you elect to expense for certain tangible property placed in service during the tax year. See the instructions for Form 4562.

**Line 12. Depletion.**—Enter any allowable depletion on royalty income reported on line 4, Schedule B. See the instructions for line 23, Schedule A, for more information.

**Line 13. Trade or business deductions.**—Enter the total deductions for any trade or business income included in gross investment income under section 834(b)(2). Do not include deductions for any insurance business. Do not include losses from sales or exchanges of capital assets or property used in the business, or from the compulsory or involuntary conversion of property used in the trade or business.

**Line 14. Interest.**—See the instructions for lines 20a and 20b, Schedule A.

**Line 17. Investment expenses.**—Enter expenses that are properly chargeable as investment expenses. If general expenses are allocated to investment expenses, the total deduction cannot be more than the amount shown on Schedule B, Part II, line 39. Attach a schedule showing the kind and amount of the items and group the minor items into one amount.

See section 267 for the limitation on deductions for unpaid expenses and interest in transactions between related taxpayers.

## Schedule B, Part II—Invested Assets Book Values

Schedule B, Part II, is used to compute the limitation on investment expenses required under section 834(c)(2) when any general expenses are in part assigned to or included in the investment expenses deducted on Schedule B, Part I, line 17.

## Schedule C—Dividends and Special Deductions

For purposes of the 20% ownership test on lines 1 through 7, the percentage of stock owned by the corporation is based on voting power and value of stock. Preferred stock described in section 1504(a)(4) is not taken into account. Corporations filing a consolidated return should see Regulations sections 1.1502-14, 26, and 27 before completing Schedule C.

**Lines 1 through 9, column (a). Not subject to section 832(b)(5)(B).**—Enter in column (a) of the appropriate line those dividends that are not subject to the provisions of section 832(b)(5)(B). This will include: (i) all dividends received on stock whose acquisition date is before August 8, 1986; and (ii) 100% dividends (defined below) on stock acquired after August 7, 1986, to the extent that such dividends are not attributable to prorated amounts.

**Lines 1 through 9, column (b). Subject to section 832(b)(5)(B).**—Enter in column (b) of the appropriate line those dividends that are subject to the provisions of section 832(b)(5)(B). This will include: (i) all dividends (other than 100% dividends) received on stock acquired after August 7, 1986; and (ii) 100% dividends received on stock acquired after August 7, 1986, to the extent that such dividends are attributable to prorated amounts.

In the case of an insurance company that files a consolidated return, the determination with respect to any dividend paid by a member to another member of the affiliated group is made as if no consolidated return was filed. See section 832(g).

### Definitions

“Acquisition date” means in the case of investments acquired by direct purchase, the trade date rather than the settlement date. In the case of investments acquired other than by direct purchase (such as those acquired through transfers among affiliates, tax-free reorganizations, or the liquidation of a subsidiary, etc.), the actual acquisition date should be used regardless of the holding period determined under section 1223.

In the case of dividends received from affiliates, a special rule applies in determining the acquisition date. This rule provides that the portion of any 100% dividend which is attributable to prorated amounts shall be treated as received with respect to stock acquired on the later of: (a) the date the payor acquired the stock or obligation to which the prorated amounts are attributable, or (b) the first day on which the payor and payee were members of the same affiliated

group as defined in section 243(b)(5). Also, if the taxpayer is a member of an affiliated group filing a consolidated return, its determination of dividends received is made as if the group were not filing a consolidated return.

“Prorated amounts” means tax-exempt interest and dividends with respect to which a deduction is allowable under section 243, 244, or 245 (other than 100% dividends).

“100% dividend” means any dividend if the percentage used for purposes of determining the deduction allowable under section 243, 244, or 245(b) is 100%. A special rule applies to certain dividends received by a foreign corporation.

**Line 1.**—Enter dividends (except those received on debt-financed stock acquired after July 18, 1984—see section 246A) received from less-than-20%-owned domestic corporations subject to income tax and that are subject to the 70% deduction under section 243(a)(1).

**Line 2.**—Enter dividends (except those received on debt-financed stock acquired after July 18, 1984) received from 20%-or-more-owned domestic corporations subject to income tax that are subject to the 80% deduction under section 243(c).

Include on lines 1 and 2 taxable distributions from an IC-DISC or former DISC that are designated as being eligible for the section 243(a)(1) deduction and certain dividends of Federal Home Loan banks (see section 246(a)(2)). For dividends received from a regulated investment company, see section 854 for the amount that qualifies for the deduction.

So-called dividends or earnings received from mutual savings banks, money market certificates, etc., are really interest and should not be treated as dividends.

**Line 3.**—Enter dividends on debt-financed stock acquired after July 18, 1984 that are received from domestic corporations subject to income tax and that would otherwise be subject to the dividends-received deduction under section 243(a)(1), 243(c), or 245(a). Generally, debt-financed stock is stock that the corporation acquired by incurring a debt (e.g., it borrowed money to buy the stock).

Dividends on any debt-financed stock of foreign corporations that was acquired after July 18, 1984, are also subject to the rules of section 246A. For more information, see section 246A.

**Line 4.**—Enter dividends received on the preferred stock of a less-than-20%-owned public utility that is subject to income tax and is allowed the deduction provided in section 247 for dividends paid.

**Line 5.**—Enter dividends received on the preferred stock of a 20%-or-more-owned public utility that is subject to income tax and is allowed the deduction provided in section 247 for dividends paid.

**Line 6.**—Enter the U.S. source portion of dividends received from less-than-20%-owned foreign corporations and qualify for the 70% deduction under section 245(a). To qualify for the 70% deduction, the corporation must own at least 10% of the foreign corporation by vote and value. Also include dividends received from a less-than-20% foreign sales corporation (FSC) that are attributable to income treated as

effectively connected with the conduct of a trade or business within the U.S. (excluding foreign trade income) and that qualify for the 70% deduction provided in section 245(c)(1)(B).

**Line 7.**—Enter the U.S.-source portion of dividends received from 20%-or-more-owned foreign corporations and qualify for the 80% deduction under section 245(a). Also include dividends received from a 20%-or-more-owned FSC that are attributable to income treated as effectively connected with the conduct of a trade or business within the U.S. (excluding foreign trade income) and that qualify for the 80% deduction provided in section 245(c)(1)(B).

**Line 8.**—Enter dividends received from wholly owned foreign subsidiaries that are eligible for the 100% deduction under section 245(b) and dividends from a FSC that qualify for the deduction provided in section 245(c)(1)(A). In general, the deduction under section 245(b) applies to dividends paid out of the earnings and profits of a foreign corporation for a tax year during which: **(1)** All of its outstanding stock is owned (directly or indirectly) by the domestic corporation receiving the dividends, and **(2)** All of its gross income from all sources is effectively connected with the conduct of a trade or business within the United States. Also include all dividends received from a FSC that are attributable to export sales income and that qualify for the 100% deduction under section 245(c).

**Line 9.**—Enter dividends that qualify for the 100% dividends-received deduction under section 243(a)(3) and are subject to the elective provisions of section 243(b).

**Line 10, column (c). Other dividends from foreign corporations not included on lines 6, 7, and 8.**—Enter foreign dividends not reportable on lines 6, 7, and 8. Exclude distributions of amounts constructively taxed in the current year or in prior years under Subpart F (sections 951 through 964).

**Line 11, column (c). Income from controlled foreign corporations under Subpart F.**—Include income constructively received from controlled foreign corporations under Subpart F. This amount should equal the total amounts reported in Schedule I of Form 5471.

**Line 12, column (c). Foreign dividend gross-up.**—Include gross-up for taxes deemed paid under sections 902 and 960.

**Line 13, column (c). Other dividends.**—Include the following: **(1)** Dividends (other than capital gain and exempt-interest dividends) received from regulated investment companies that are not subject to the 70% deduction. **(2)** Dividends from tax-exempt organizations. **(3)** Dividends (other than capital gain dividends) received from a real estate investment trust that, for the tax year of the trust in which the dividends are paid, qualifies under sections 856 through 860; **(4)** Dividends not eligible for a dividends-received deduction because of the stock's holding period or because of an obligation to make corresponding payments on similar stock. Two situations in which the dividends-received deduction will not be allowed on any share of stock are: (a) if the corporation held it 45 days or less (see section 246(c)(1)(A)), or (b) to the extent the corporation is under an obligation to make related payments for substantially similar or related property. **(5)**

Any other taxable dividend income not properly reported above, including distributions under section 936(h)(4).

**Line 17. Deduction for line 3.**—Dividends received on debt-financed stock are not entitled to the full 70% or 80% dividends-received deduction. Instead, the 70% or 80% deduction is reduced under the provisions of section 246A by a percentage that is related to the amount of debt incurred to acquire the stock. For more information, see section 246A. Also see section 245(a) before making this computation for an additional limitation which applies to dividends received from foreign corporations.

A schedule showing how the dividends-received deduction on debt-financed stock was computed must be attached to Form 1120-PC.

**Line 23. Total.**  
**Limitation on dividends-received deduction worksheet.**

Generally, line 23 of column (c) may not exceed the amount from the worksheet below. However, in a year in which an NOL occurs, this limitation does not apply even if the loss is created by the dividends-received deduction. (See sections 172(d) and 246(b)).

1. Enter the amount from Schedule A, line 37 or Schedule B, line 21, whichever applies, computed without regard to: the NOL deduction (section 172); dividend-received deduction (sections 243(a)(1), 244(a), 245(a) or (b), and 247); any adjustment under section 1059; and any capital loss carryback to the tax year under section 1212(a)(1) . . . . .
2. Enter the sum of the amounts from line 22, column (c), (without regard to wholly owned foreign subsidiary dividends) and line 24, column (c) . . . . .
3. Subtract line 2 from line 1 . . . . .
4. Multiply line 3 by 80% . . . . .
5. Enter the sum of the amounts on lines 16, 19, 21, and 22 (without regard to FSC dividends) of column (c) and the portion of the deduction on line 17 of column (c) that is attributable to dividends received from 20%-or- more-owned corporations . . . . .
6. Enter the smaller of line 4 or line 5. (Do not complete the rest of this worksheet if line 5 is greater than line 4. Instead, enter the amount from line 6 on line 23 of column (c) (without regard to FSC dividends)) . . . . .
7. Enter the total amount of dividends received from 20%-or-more-owned corporations and included on lines 2, 3, 5, 7, and 8 (without regard to FSC dividends) of column (a) . . . . .
8. Subtract line 7 from line 3 . . . . .
9. Multiply line 8 by 70% . . . . .
10. Subtract line 5 from line 23 of column (c) (without regard to FSC dividends) . . . . .
11. Enter the smaller of line 9 or line 10 . . . . .
12. Dividends-received deduction after limitation (section 246(b)). Add lines 6 and 11 and enter the result on line 23, column (c) (without regard to FSC dividends) . . . . .

**Schedule E—Premiums Earned—Section 832**

**Line 1.**—From the amount of gross premiums written on insurance contracts during the tax year, deduct return premiums and premiums paid for reinsurance. Enter the balance on line 1.

**Lines 2a and 4a.**—Include on lines 2a and 4a:

1. All life insurance reserves, as defined in section 816(b) (but determined as provided in section 807); and
2. All unearned premiums of a Blue Cross or Blue Shield organization to which section 833 applies.

**Note:** If due to the amendments made to section 832(b)(4) applicable to tax years beginning on or after September 30, 1990, a corporation is required to change its method of computing reserves, this change is treated as a change in method of accounting, initiated by the corporation, and made with the consent of the Secretary. The corporation must take into account the net adjustments required by section 481 over a period not to exceed 4 tax years beginning with the 1st tax year beginning on or after September 30, 1990.

**Lines 2b and 4b.**—Include on lines 2b and 4b, 90% of unearned premiums attributable to insurance against default in the payment of principal or interest on securities described in section 165(g)(2)(C) (relating to worthless securities) with maturities of more than 5 years.

**Lines 2c and 4c.**—The amount of the discounted unearned premiums as of the end of any tax year must be the present value of such premiums (as of such time and separately with respect to premiums received in each calendar year) determined by using: **(1)** the amount of the undiscounted unearned premiums at such time; **(2)** the applicable interest rate; and **(3)** the applicable statutory premium recognition pattern.

**Definitions**  
“Undiscounted unearned premiums” means the unearned premiums shown in the annual statement filed for the year ending with or within such tax year.  
“Applicable interest rate” means the annual rate determined under section 846(c)(2) for the calendar year in which the premiums are received.

“Applicable statutory premium recognition pattern” means the statutory premium recognition pattern that is in effect for the calendar year in which the premiums are received, and that is based on the statutory premium recognition pattern which applies to premiums received by the corporation in such calendar year. For purposes of the preceding sentence, premiums received during any calendar year will be treated as received in the middle of such year.

**Lines 2d and 4d.**—Include on lines 2d and 4d, 80% of the total of all unearned premiums not reported on lines 2a through 2c, or 4a through 4c, respectively.

A reciprocal or interinsurer that is required under state law to reflect unearned premiums on its annual statement net of premium acquisition expenses, should increase its unearned premiums by the amount of such acquisition expenses prior to making the computation on lines 2d and 4d. See section 832(b)(7)(E).

**Line 6a.**— Enter all unearned premiums other than those attributable to: **(1)** title insurance; **(2)** life insurance; **(3)** insurance against default in the payment of principal or interest on securities described in section 165(g)(2)(C)

(relating to worthless securities) with maturities of more than 5 years; and (4) organizations described in section 833.

In the case of a reciprocal or interinsurer that is required under state law to report unearned premiums on its annual statement, net of premium adjustment expenses, appropriate adjustments must be made to reflect the amount by which unearned premium reserves at the close of the tax year beginning before January 1, 1987, are greater or less than 80% of the sum of such unearned premium reserves plus premium acquisition expenses. See section 832(b)(7)(E).

**Line 6c.**—Enter unearned premiums attributable to insurance against default in the payment of principal or interest on securities described in section 165(g)(2)(C) (relating to worthless securities) with maturities of more than 5 years.

**Note:** Fiscal year filers completing lines 6a and 6c should enter unearned premiums on outstanding business as of the end of the most recent tax year beginning before January 1, 1987.

**Line 6e.**—Except as provided in section 381(c)(22) (relating to carryovers in certain corporate readjustments), if, for any tax year beginning before January 1, 1993, the corporation ceases to be an insurance company taxable under section 831(a), the total adjustments which would be made under section 832(b)(4)(C) in such tax year and in subsequent tax years but for such cessation must be made in the tax year preceding such cessation year.

## Schedule F—Losses Incurred

**Line 1. Losses paid.**—Enter the total of the losses paid on insurance contracts during the tax year less salvage and reinsurance recovered during the tax year.

**Note:** An insurance company's treatment of salvage in determining its paid and unpaid losses is a method of accounting for Federal income tax purposes. In general, insurance companies that did not previously treat salvage in accordance with section 832(b)(5)(A) are to change their method of accounting for the first tax year beginning after December 31, 1989. A change in the method of computing losses incurred, is treated as a change in a method of accounting, initiated by the corporation, and made with the consent of the Secretary. In applying section 481 due to a change required by section 832(b)(5)(A), only 13% of the net amount of adjustments (otherwise required by section 481 to be taken into account) will be taken into account. In addition, the portion of net adjustments required to be taken into account, must be taken into account over a period not to exceed 4 tax years beginning with the corporation's first tax year beginning after December 31, 1989. If a corporation took salvage recoverable into account in determining losses incurred for its last tax year beginning before January 1, 1990, (and reflected such treatment in its annual statement) 87% of the discounted amount of estimated salvage recoverable as of the close of such last tax year will be allowed as a deduction ratably over its first 4 tax years beginning after

December 31, 1989. Also see Rev. Proc. 91-48, 1991-35 IRB 6.

See section 11305(c)(4) and (5) of the "Act of 1990" for a special rule for overestimates and effect on their earnings and profits.

Salvage, in the course of liquidation, includes: (1) all property (other than cash), real or personal, tangible or intangible, regardless of how the salvage recoverable is reported for annual statement purposes; and (2) the estimated value of unaccrued subrogation claims contested by third parties. Attach a schedule showing the computation of losses incurred during the tax year.

**Lines 2a and 4a. Unpaid losses on life insurance contracts.**—Unpaid losses must be adjusted for estimated recoveries of salvage and reinsurance attributable to unpaid losses. The amounts of expected recoveries should be estimated based on the facts in each case and the corporation's experience with similar cases.

**Lines 2b and 4b. Discounted unpaid losses outstanding.**—Enter all discounted unpaid losses as defined in section 846.

In general, section 846 provides that the amount of discounted unpaid losses must be computed separately by line of business (multiple peril lines must be treated as a single line of business) and by accident year and must be equal to the present value of such losses determined by using: (1) the amount of the undiscounted unpaid losses, (2) the applicable interest rate, and (3) the applicable loss payment pattern. Special rules apply with respect to unpaid losses related to disability insurance (other than credit disability insurance), noncancelable accident and health insurance, cancelable accident and health insurance, and to the international and reinsurance lines of business. With regard to the special rules for discounting unpaid losses on accident and health insurance (other than disability income insurance), unpaid losses are assumed to be paid in the middle of the year following the accident year.

As a rule, the amount of undiscounted unpaid losses means the unpaid losses and unpaid loss adjustment expenses shown in the annual statement. Under section 832(b)(5)(A), however, unpaid losses must be adjusted to take into account estimated recoveries due to salvage and reinsurance attributable to those losses. If the amounts shown in the annual statement were determined on a discounted basis and if the extent to which these losses were discounted can be determined on the basis of information disclosed on or with the annual statement, the amount of the undiscounted unpaid losses must be recomputed to eliminate any reduction caused by such discounting. In no event can the amount of discounted unpaid losses determined under section 846 with respect to any line of business for an accident year exceed the total amount of unpaid losses with respect to any line of business for an accident year as reported on the annual statement.

The applicable interest rate for each calendar year and the applicable loss payment pattern for each accident year for each line of business are determined by the Secretary. The applicable interest rate, 8.42%, and applicable loss payment patterns for 1991 are published in Rev. Rul. 91-42,

1991-31 IRB 6. Applicable interest rates and payment patterns for prior years are published in Rev. Rul. 90-26, 1990-1 C.B. 124; Rev. Rul. 89-66A, 1989-1 C.B. 220; Rev. Rul. 88-63, 1988-2 C.B. 130; and Rev. Rul. 87-34, 1987-1 C.B. 168. However, under section 846(e), corporations having sufficient historical experience to determine a loss payment pattern may, under certain circumstances, elect to use their own. If an election is made, the loss payment patterns will be based on the most recent calendar year for which an annual statement was filed before the beginning of the accident year. No election under section 846(e) will apply to any international or reinsurance line of business. If the corporation elects to use its own loss payment patterns, be sure to check the "Yes" column for question 8 in **Schedule J**, Other Information. For more information regarding this election, see section 846(e) and Notice 88-100, 1988-2 C.B. 439.

**Note:** There is a special application of the "Fresh Start" provision in the case of an insurance company that: (1) is exempt from tax for its first tax year beginning after 1986 under section 501(a) by virtue of it being described in any paragraph of section 501(c) or, under section 831(b), is taxed only on investment income, and (2) if such insurance company later becomes subject to tax under section 831(a), the rules relating to the Fresh Start under the discounting provisions are to be applied by treating the last tax year before the year in which the insurance company becomes subject to tax under section 831(a) as the insurance company's last tax year beginning before 1987. See section 1010(e) of the Act of 1988 and Notice 88-100.

**Line 9. Tax-exempt interest subject to section 832(b)(5)(B).**—Enter the amount of tax-exempt interest received or accrued during the tax year on investments made after August 7, 1986. For additional information regarding the determination of the acquisition date of an investment, see the instructions for Schedule C, lines 1 through 9, column (b).

## Schedule G—Other Capital Losses

Capital assets are considered sold or exchanged to provide funds to meet abnormal insurance losses and to pay dividends and make similar distributions to policyholders to the extent that the gross receipts from their sale or exchange are not more than the amount by which the sum of dividends and similar distributions paid to policyholders, losses paid, and expenses paid for the tax year is more than the total on line 9, Schedule G.

Total gross receipts from sales of capital assets (line 12, column (c)) must not be more than line 10. If necessary, the corporation may report part of the gross receipts from a particular sale of a capital asset on this schedule and the rest on Schedule D (Form 1120). Otherwise, do not include on Schedule D (Form 1120) any sales reported on this schedule.

## Schedule H—Special Deduction for Section 833 Organizations

### Part I—Special Deduction

**Line 5. Beginning adjusted surplus.**—Enter the amount from Schedule H, Part II, line 12 of the 1990 Form 1120-PC.

**Line 6. Special deduction.**—The deduction determined in Part I for any tax year is limited to taxable income for such tax year determined without regard to such deduction.

**Note:** Under section 833(b)(4), any determination under section 833(b) must be made by only taking into account items from the health-related business of the corporation.

### Part II—Ending Adjusted Surplus

The adjusted surplus as of the beginning of any tax year is an amount equal to the adjusted surplus as of the beginning of the preceding tax year: **(1)** increased by the amount of any adjusted taxable income for the preceding tax year, or **(2)** decreased by the amount of any adjusted net operating loss for the preceding tax year.

For purposes of the computation of the adjusted surplus, the terms “adjusted taxable income” and “adjusted net operating loss” mean the taxable income or the net operating loss, respectively, determined with the following modifications: **(1)** without regard to the deduction determined under section 833(b)(1); **(2)** without regard to any carryover or carryback to that tax year; and **(3)** by increasing gross income by an amount equal to the net exempt income for the tax year.

**Line 10a. Adjusted tax-exempt income.**—Reduce the total tax-exempt interest received or accrued during the tax year by any amount (not otherwise deductible) which would have been allowable as a deduction for the tax year if such interest were not tax-exempt. Enter the result on line 10a.

**Line 10b. Adjusted dividends-received deduction.**—Reduce the total amount allowed as a deduction under sections 243, 244, and 245 by the amount of any decrease in deductions allowable for the tax year because of section 832(b)(5)(B) when the decrease is caused by the deductions under sections 243, 244, and 245. Enter the result on line 10b.

## Schedule I—Compensation of Officers

Attach a schedule for all officers using the following columns: **1.** Name of officer. **2.** Social security number. **3.** Percentage of time devoted to business. **4.** Amount of compensation.

This information must be submitted by each member of an affiliated group included in a consolidated return.

## Schedule J—Other Information

Be sure to answer questions 1 through 11 on page 7 of Form 1120-PC. The instructions that follow are keyed to these questions.

**Question 4. Foreign person.**—The term “Foreign person” means a foreign: **(1)** citizen or nonresident alien; **(2)** partnership; **(3)** corporation; or **(4)** any estate or trust within the meaning of section 7701(a)(31).

“Owner’s country,” for individuals, is the owner’s country of residence. For all others, it is the country where incorporated, organized, created, or administered.

**Question 6. Foreign financial accounts.**—Check the “Yes” box if either **(a)** or **(b)**, below, applies to the corporation; otherwise, check the “No” box:

**(a)** At any time during the year the corporation had an interest in or signature or other authority over a financial account in a foreign country (such as a bank, securities, or other financial account); and

• the combined value of the account(s) was more than \$10,000 at any time during the year; AND

• the account was NOT with a U.S. military banking facility operated by a U.S. financial institution.

**(b)** The corporation owns more than 50% of the stock in any corporation that would answer “Yes” to item **(a)**, above.

Get form **TD F 90-22.1**, Report of Foreign Bank and Financial Accounts, to see if the corporation is considered to have an interest in or signature or other authority over a financial account in a foreign country.

If “Yes” is checked for this question, file form TD F 90-22.1 by June 30, 1992, with the Department of the Treasury at the address shown on the form. Form TD F 90-22.1 is not a tax return, so do not file it with Form 1120-PC. Form TD F 90-22.1 may be obtained from IRS Forms Distribution Centers.

Also, if “Yes” is checked for this question, enter the name of the foreign country or countries. Attach a separate sheet if more space is needed.

## Schedule K—Subtractions From Protection Against Loss Account

Section 1024 of P.L. 99-514 repealed section 824 relating to the protection against loss account (PAL account). However, for tax years beginning after December 31, 1986, PAL account balances are includible in income as though section 824 were still in effect.

**Line 2a. Section 824(d)(1)(B).**—Enter the amount (if any) by which the sum of the investment loss and the statutory

underwriting loss for the tax year exceeds the sum of the statutory underwriting income and the taxable investment income for the tax year.

**Line 2b. Section 824(d)(1)(C).**—Enter (in the order the losses occurred) amounts equal to the unused loss carryovers to the tax year.

**Line 2c. Section 824(d)(1)(D).**—Enter any amount remaining in the account which was added to the account for the fifth preceding tax year minus one-half of the amount remaining in the account for such tax year which was added by section 824(a)(1)(B).

**Line 2d. Section 824(d)(1)(E).**—Enter the amount by which the total amount in the account exceeds the greater of:

**(i)** 10% of premiums earned on insurance contracts during the tax year (as defined in section 832(b)(4)) minus dividends to policyholders (as defined in section 832(c)(11)), or

**(ii)** the total amount in the account at the close of the preceding tax year.

## Schedule L—Balance Sheets

**Note:** All insurance companies required to file Form 1120-PC must complete Schedule L.

**Line 5. Tax-exempt securities.**—Include on this line: **(1)** State and local government obligations, the interest on which is excludable from gross income under section 103(a), and **(2)** Stock in a mutual fund or other regulated investment company that distributed exempt-interest dividends during the tax year of the corporation.

**Line 18. Insurance liabilities.**—Include on this line: **(a)** undiscounted unpaid losses, **(b)** loss adjustment expenses, and **(c)** unearned premiums. See section 846 for more information.

## Schedule M-1—Reconciliation of Income per Books With Income per Return

**Line 5c. Travel and entertainment.**—Include on this line: 20% of meals and entertainment not allowed under section 274(n); expenses for the use of an entertainment facility; the part of business gifts in excess of \$25; expenses of an individual allocable to conventions on cruise ships in excess of \$2,000; employee achievement awards in excess of \$400; the cost of entertainment tickets in excess of face value (also subject to 20% disallowance); the cost of skyboxes in excess of the face value of non-luxury box seat tickets; the part of the cost of luxury water travel not allowed under section 274(m); expenses for travel as a form of education; and other travel and entertainment expenses not allowed as a deduction.